



## Worse Than Expected

Posted by [Pierluigi Oliverio](#) on Monday, April 06, 2009

Our County Assessor was quoted on Friday as saying the downturn in real estate values is "worse than expected," and that more than 90,000 residential parcels will be valued at less than their purchase price. We are living through historic times, with unprecedented negative growth in real estate. That has happened in Santa Clara County only a handful of times: in 1932, 1933 and 1936, and again in 1978 (after Prop 13) was passed. So what does that mean, other than many depressed homeowners? Well, it means that the City of San Jose's deficit just catapulted to \$77 million.

The City Manager announced Friday that we will have an additional shortfall of \$14.3M due to lower property tax revenues on top of the sales tax decline which added another \$3M to the deficit. I believe we will also see a sharp fall in our TOT (hotel tax) this quarter. This means less city services starting July 1, 2009 for you. But there is more...

You should be praying for the stock market to rise not just for your own 401K but for your city services. City pensions are self-insured, and if there is a shortfall, then money comes out of the General Fund. Today, the city matches employee contributions for retirement based on actuarial studies. For example, for Police, the city puts in 24.94 percent on top of the 11.96 percent the employee puts in. For Fire the city puts in 27.37 percent and the employee puts in 12.45 percent. For the rest of city professional staff, the city puts in 22.68 percent on top of the 8.93 percent from the employee. Does your employer match your 401K to this level?

Now that the market has tanked, money must come from the General Fund to cover the loss. The good news is that we don't need to cough up any money on July 1, 2009. The bad news is that we need to cough up money on July 1, 2010 for the next fiscal year. Of course, if the stock market completely recovers by the end of June 2009 then we are good—but that is doubtful.

Without a stock market recovery, the baseline contribution rate from the city would increase from 22.5 percent for Police & Fire to the range of 35.3-57.8 percent for July 1, 2010, and then rise again July 1, 2013 to 54.2-70.1 percent. These are projections only. Let us hope they go down. But what this means in dollars is that the city would have to reduce the General Fund that pays for all the services we have counted on by \$31M July 1, 2010, \$24M July 1, 2011, \$22M July 1, 2012, \$24M July 1, 2013 for a total cost of \$101M. That's for Police and Fire only.

If these numbers are not evidence enough that we need to have a new benefit structure for new city employees, I am not sure what is.

I am sponsoring a viewing of a documentary titled "IOUSA." This movie is an eye-opener about the looming financial catastrophe. This is the consequence of elected officials not making tough decisions, but promising everything without thought about future implications. In addition, a speaker from the bipartisan Concord Coalition will be speaking at the event. The Concord Coalition was started by two senators—one Democrat and one Republican—back in 1992 to bring awareness to the National Debt.

When: Monday May 4 from 7-9pm.

Where: San Jose City Hall Council Chambers (200 East Santa Clara Street)

Cost: Free, but limited seating

Click this link to watch a trailer from the documentary *IOUSA*:

<http://www.youtube.com/watch?v=HBo2xQIWHiM>

I look forward to you joining me and others on May 4. Please RSVP:

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